MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

PEM0034 – ESSENTIALS OF MACROECONOMICS

(All sections / Groups)

04 JUNE 2018
2.30 p.m - 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 8 printed pages with:
   Section A: Forty (40) multiple choice questions (40 marks)
   Section B: Three (3) structured questions (60 marks)

2. Answer **ALL** questions.

3. Answer **Section A** in the multiple-choice answer sheet and **Section B** in the answer booklet provided.

4. Marks allocations are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Answer all questions in the multiple choice answer sheet.

1. Which of the following statements is a macroeconomics issue?
   A. The percentage of the labour force that is out of work and the differences in average income from country to country.
   B. The effect of taxes on the prices of airline tickets, profitability of automobile manufacturing firms and employment trends in food-service industry.
   C. The price of beef, wage differences between genders and antitrust laws.
   D. How consumers maximize utility and the prices that are established in markets for agricultural products.

2. Gross domestic product (GDP) that is measured using current prices is called _____.
   A. real GDP.
   B. nominal GDP.
   C. deflated GDP.
   D. constant GDP.

3. An investment may decrease due to _____.
   A. an increase in interest rate.
   B. an increase in business confidence.
   C. a new technological improvement.
   D. a decrease in tax percentage.

4. The Average Propensity to Save is calculated by dividing _____.
   A. saving by income.
   B. total income by saving.
   C. change in saving income by change in consumption.
   D. change in income by change in saving.

5. National income equilibrium occurs when _____.
   A. demand equals supply in the economy.
   B. aggregate supply equals the real value of national income.
   C. aggregate expenditure equals aggregate supply in the economy.
   D. total injections exceed total leakages.

6. If the autonomous consumption increases, the size of the expenditure multiplier will _____.
   A. increase.
   B. be uncertain.
   C. remain constant.
   D. either increase or decrease, depending on the size of the change in autonomous consumption.

Continued...

7. In creating money, banks _____.
   A. can create all they want to.
   B. have to obtain permission from the Bank Negara.
   C. are limited by the amount of vault cash held.
   D. are limited by their reserve.

8. Which of the following is a liability to a bank?
   A. Checkable deposits.
   B. Equipment owned by the bank.
   C. Reserves at the Bank Negara.
   D. All of the above are liabilities to the bank.

9. Which of the following is not part of money supply M1?
   A. Demand deposits.
   B. Debit cards.
   C. Fiat money.
   D. Traveller's cheques.

10. Which of the following bank transactions changes the quantity of money?
    A. Accepting a cash deposit.
    B. Making a loan to a firm.
    C. Clearing a check deposited in another bank.
    D. Establishing a reserve account at the Bank Negara.

11. Suppose Adam transfers RM1, 000 from his checking account to his saving account. How does this action affect the M1 and M2 money supplies?
    A. Both M1 and M2 will fall by RM1, 000.
    B. M1 will fall by RM1, 000, while M2 will be unchanged.
    C. M1 will be unchanged and M2 will rise by RM1, 000.
    D. Both M1 and M2 will increase by RM1, 000.

12. **Exhibit 1** shows the balance sheet of Bank Easy. How much is the reserve ratio of the bank?

Bank Easy

Asset		Liability	
Reserves	RM 9, 000	Deposits	RM 10, 000
Loans	RM 1, 000		

Exhibit 1

   A. 5%.
   B. 10%.
   C. 15%.
   D. 20%.

Continued...

13. To increase the quantity of money, the Bank Negara Malaysia can _____.
    A. increase the required reserve ratio.
    B. increase the discount rate.
    C. sell government securities in the open market.
    D. buy government securities in the open market.

14. The goal of expansionary monetary policy is to _____.
    A. have an equal distribution of income.
    B. to decrease interest rates.
    C. to decrease price levels.
    D. to increase the level of aggregate output.

15. Inflation can be measured by the _____.
    A. changes in the consumer price index.
    B. changes in the price of a particular commodity.
    C. percentage change in the consumer price index.
    D. percentage change in the price of a particular commodity.

16. If the consumer price index is equal to 100 in 2014 and is equal to 103.2 in 2015, we can conclude that _____.
    A. the inflation rate from 2014 to 2015 is 3.2%.
    B. the inflation rate from 2014 to 2015 is 103.2%.
    C. there was no inflation from 2014 to 2015.
    D. 2015 is the base year.

17. During inflation, the central bank will perform open market operations by _____ government bonds, so that the money supply could be _____ to stabilize the economy.
    A. selling; decreased
    B. selling; increased
    C. buying; decreased
    D. buying; increased

18. Demand-pull inflation occurs when the _____ shifts to _____.
    A. aggregate demand curve; the right in full employment.
    B. aggregate demand curve; the left in full employment.
    C. aggregate supply curve; the left.
    D. aggregate supply curve; the right.

19. Which of the following statements is **TRUE** about the effects of inflation?
    A. Inflation causes holders of fixed deposits in banks to gain more income.
    B. Inflation has more adverse impact if anticipated rather than unanticipated.
    C. Inflation causes the cost of living to be decreased.
    D. Creditors who have loaned money at interest rates below the rate of inflation will suffer economic losses.

Continued...

20. Cyclical unemployment refers to _____.
    A. long-term trends in unemployment
    B. how often a worker is likely to be employed during her lifetime.
    C. year-to-year fluctuations of unemployment around its natural rate.
    D. the relation between the probability of unemployment and a worker's changing level of experience.

21. What type of unemployment can best be described as "short-term unemployment when new entrants and re-entrants enter the labour market to look for jobs"?
    A. Frictional unemployment.
    B. Seasonal unemployment.
    C. Technological unemployment.
    D. Structural unemployment.

22. All of the following statements are true, **except** _____.
    A. Frictional unemployment occurs when workers are between jobs.
    B. Structural unemployment occurs as a result of changing production methods.
    C. Seasonal unemployment occurs because trade unions negotiate for higher wages.
    D. Cyclical unemployment is a serious unemployment, leading to a lack of aggregate demand in recession.

23. Unemployment rate is the _____.
    A. proportion of unemployed persons to the total labour force.
    B. proportion of unemployed persons to the total population.
    C. proportion of unemployment to employed workers.
    D. proportion of employed workers out of the total population.

24. The natural rate of unemployment consists of _____.
    A. frictional and cyclical unemployment.
    B. frictional and classical unemployment.
    C. frictional and structural unemployment.
    D. sesasonal and cyclical unemployment.

25. Workers who are overqualified for their current jobs are defined as _____.
    A. underemployed.
    B. discouraged workers.
    C. over-employed.
    D. unemployed.

26. What is the definition of a discouraged worker?
    A. A person who has been sacked and it temporarily out of job.
    B. A person who leaves the job market and has no success in finding a job after a long time.
    C. A person who works part-time and is looking for a full-time paid job.
    D. A person who is currently not working, due to structural changes.

Continued...

27. If a country can produce more of a particular commodity compared to another country, using the same amount of resources, that country is said to have _____.
    A. an absolute advantage.
    B. a comparative advantage.
    C. a mutual advantage.
    D. terms of trade.

28. Goods and services that Malaysia sells to other nations are called _____.
    A. exports.
    B. imports.
    C. bartered goods.
    D. exchanges.

29. A tax on imported goods is called as _____.
    A. tariff.
    B. excise tax.
    C. import quota.
    D. None of the above is correct.

30. International trade_____.
    A. raises the standard of living in all trading countries.
    B. lowers the standard of living in all trading countries.
    C. leaves the standard of living unchanged.
    D. raises the standard of living for importing countries and lowers it for exporting countries.

31. *"It is suggested that an industry must be protected at the initial stages of its growth, so that ...."*

    Which of the following completes this industry argument for protectionism?
    A. firms can be protected from subsidized foreign competition.
    B. domestic producers can attain the economies of scale to allow them to compete in world markets.
    C. there will be adequate supplies of crucial resources, in case they are needed for national defence.
    D. none of the above.

32. A country with a comparative advantage in the production of a good will _____.
    A. import the good.
    B. export the good.
    C. resist trade.
    D. any of the above could happen.

Continued...

33. Components of Balance of Payments are _____.
    A. current account.
    B. capital account.
    C. official reserve account.
    D. All of the above.

34. Which of the following is **NOT** included in the current account?
    A. exports of goods
    B. exports of services
    C. investment income
    D. statistical discrepancy

35. An increase in "foreign private assets in Malaysia" means that _____.
    A. Malaysian citizens have increased their holdings of foreign private assets
    B. Malaysian citizens have decreased their holdings of foreign private assets
    C. citizens of foreign countries have increased their holdings of Malaysian private assets
    D. citizens of foreign countries have decreased their holdings of Malaysian private assets

36. Which of the following would **NOT** be an appropriate response to an unfavourable balance of trade for Malaysia?
    A. increase tariffs
    B. subsidise exports
    C. impose import quotas
    D. appreciate the Ringgit Malaysia

37. Which of the following does **NOT** result in a change in the demand for foreign currency?
    A. changes in income
    B. change in the interest rate
    C. change in the foreign exchange rate
    D. none of the above

38. Malaysia imports cars because _____.
    A. it is a dangerous job to produce them
    B. Malaysia has a lower opportunity cost of production
    C. foreign nations have a lower opportunity cost of production
    D. foreign economies have an absolute advantage in their production

39. Government payments made to domestic firms in order to encourage exports are called _____.
    A. tariffs
    B. bribes
    C. quotas
    D. subsidies

40. A government act that changes the exchange rate by rising the official price of currency are referred to _____.
    A. overvaluation.
    B. undervaluation.
    C. devaluation.
    D. revaluation.

Continued...

SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Answer all questions in the answer booklet provided.

Question 1 (20 marks)

Explain using appropriate diagrams how the following monetary policies would affect interest rate, output and employment.

a) Bank Negara Malaysia increases money supply. (10 marks)
b) Bank Negara Malaysia decreases money supply. (10 marks)

Question 2 (20 marks)

a) **Exhibit 2** below uses data for the year 2003 provided by the United States' Bureau of Labour Statistics and adjusted to be comparable to U.S. data.

Re-draw Exhibit 2 in your answer booklet and fill in the blank entries.

Country	Adult Population ('000)	Labor Force ('000)	Employed ('000)	Unemployed ('000)	Unemploy-ment Rate (%)	Labor-Force Parti-cipation Rate (%)
Japan	109,474		62,510	3,500		
France	46,804	26,870		2,577	9.59	57.41
Germany	70,159	39,591	35,755		9.69	56.43

Exhibit 2

(10 marks)

b) *"Inflation is a situation where there is too much money chasing too few goods, cost of living increased, average prices are rising and there is persistent fall in the value of money in the economy".*

Explain **THREE (3)** types of inflation.

(10 marks)

Continued...

Question 3 (20 marks)

a) Consider two countries, Indonesia and the Vietnam, each capable of producing peanuts and corns. The amount of inputs, the production possibilities for these two countries are as shown in ***Exhibit 3***.

Indonesia		Vietnam	
Peanut (in tons)	**Corn (in tons)**	**Peanut (in tons)**	**Corn (in tons)**
0	40	0	40
5	30	10	30
10	20	20	20
15	10	30	10
20	0	40	0

Based on ***Exhibit 3***:

i) Calculate the opportunity cost of producing peanut for each country. (3 marks)

ii) Calculate the opportunity cost of producing corn for each country. (3 marks)

iii) Which country has a comparative advantage in producing peanut? Which country has a comparative advantage in producing corn? Briefly explain. (3 marks)

iv) Suppose the term of trade for each ton of corn is 0.75 tons of peanut. If each country specialises in the good for which it has comparative advantage, and they exchange 32 tons of corn for some tons of peanut, compute the consumption bundles of corn and peanut (in tons) for each country. (2 marks)

b) Trade restriction is government restrict trade to protect domestic industries. There are **TWO (2)** main methods used to restrict trade namely:

(i) tariff (3 marks)
(ii) non-tariff (6 marks)

Discuss both methods using appropriate examples.

End of Page.